



the work foundation

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Are we heading for a fairer workplace?

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An age of unfairness?

Recognition is growing that the credit boom and asset price bubble allowed many companies to dodge fundamental issues about how to generate sustainable wealth. For some, the only source of legitimacy that mattered to them was based on their ability to deliver ever-growing shareholder returns; the doctrine was what was good for shareholder value could only be good for the firm. The credit crunch and catastrophic recession have exposed just how crooked the thinking was. The result has been one of the most articulate expressions of collective indignation by the public, by workers and by the media in recent memory. At its core is a gnawing sense that the big budget deficits now defining our politics and our medium-term prosperity have resulted from a great unfairness having been visited upon us. That we are collectively bearing the consequences of a series of actions taken by a few reckless bankers and that, furthermore, they have been allowed to return to 'business as usual' while we pick up the pieces is plainly unfair.

Until now, we have paid lip-service to the idea of **fairness** in modern organisations. We worry about, and legislate for, 'equity' and 'equality of opportunity' but these ideas are not the same as fairness which is more instinctive and visceral – and which provokes such an immediate and angry response if we feel its sanctity has been violated. In this paper I will argue that the restoration of fairness in our organisations is about much more than atoning for the credit crunch and the 'greed is good' generation. It is fundamental to giving business new legitimacy and to engaging our employees to give something of themselves

to their work, to their customers and to their employers which they currently seem determined to withhold.

So, what is fairness and why does it matter?

Fairness is multi-dimensional. It includes ideas like 'meritocracy' – that people should get their 'just deserts'; distributive and procedural 'justice' – that there is a set of immutable principles which should govern how resources or opportunities should be shared out and, one of the most important aspects of fairness – that of proportionality.

For many, proportionality lies at the heart of the conception of fairness. Plato set out the case for proportionality from first principles: 'If we disregard due proportion by giving anything what is too much for it; too much canvas to a boat, too much nutriment to a body', he wrote, 'too much authority to a soul, the consequence is always shipwreck.' The belief that due proportionality should govern the distribution of reward and punishment in society has a pedigree as long as our civilisation. Indeed every civilisation in history has an embedded sense that giving someone their due proportion should be respected – the essence of fairness.

Proportionality is closely allied to the idea of balance; it is powerfully symbolic that justice is portrayed in so many cultures and across history as a pair of weighing scales. Justice has to weigh up and attribute responsibility for offences and then judge whether the punishment is sufficiently proportional – or balanced. Greek justice was to secure an eye for an eye and

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tooth for a tooth. Extenuating circumstance – the criminal's state of mind, emotional condition or any mitigating circumstance – was in general not allowed. The purpose of classic justice was to create a society in which a wrongdoer's actions would require equivalent and proportional retribution. Thus would the victim be compensated in proportion to the offence; and thus any perpetrator would be convinced there could be no potential gain.

Put simply, we have intentions that result in actions and we believe that the consequences should be proportionate. We believe in both due desert and its proportional distribution. You cannot have proportionality without due desert; neither can you have due desert without proportionality. They are two sides of the same coin.

This ceases to be an abstract banality the moment one puts some flesh on what kind of actions merit such due desert. For example, we value effort, hard work, diligence, conscientiousness and application; we do not value free-riders, shirkers, the slapdash, those who do the minimum or society's 'jobs-worths'. Of all the bases of desert, perhaps the most familiar and compelling is diligent, sustained effort. Hard work deserves proportional reward – be it the student, the entrepreneur or the athlete.

These gradations over what is considered appropriate desert are supported by further evidence. An unpublished Yougov/Fabian poll asked 2,044 individuals who they thought most deserved

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to be rich among the following figures. These are the reported percentage scores:

Alan Sugar (businessman and TV personality)	37
JK Rowling (author of Harry Potter)	26
Lewis Hamilton (Formula 1 racing driver)	7
Duke of Westminster (property owner)	2
Roman Abramovich (Russian businessman)	1
Jodie Marsh (glamour model and celebrity)	0
None of them	21

What this snapshot shows is people's perception of what is just reward. Alan Sugar and JK Rowling are comfortably the leaders, both are perceived to have earned their wealth. Alan Sugar is not just a story of the council house boy made good; he is also the entrepreneur in the list – a man who is deemed to be worth more to society than the Duke of Westminster who simply inherited his wealth, the classic beneficiary of unearned rent. JK Rowling's books have delighted millions, but only by dint of overcoming adversity – her first Harry Potter manuscript was turned down eight times before being accepted. In contrast the perception of Jodie Marsh and Lewis Hamilton is that they are both simply exploiting the capacities with which they were born rather than reaping the fruits of hard earned work. In general, approval is given to those who have applied diligent discretionary effort over time to win their fortunes, even a racing driver. Similarly, the survey shows that Roman Abramovich, the Russian oligarch,

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is perceived to have been lucky to be in the right place at the right time – the lucky recipient of privatised Russian energy-producing assets at knock-down prices before a commodity boom. But why do these concepts of justice, proportionality and fairness seem much more important now?

Part of the reason is that rewards at the top have exploded; the ratio of CEO to average pay has risen from 47 to 81 to 1 over the last decade – but with a widespread view that it is luck and manipulation that has driven the increase rather than additional hard work or additional performance. Chief executives, as Director General of the CBI Richard Lambert has said, risk being seen as aliens in their own land – particularly as none have put any money of their own at risk to make their current fortunes. They are not entrepreneurs expanding the economic pie; they are stewards of large companies built up by others but simply earning two or three more times for doing the same job as their predecessors. When times were good and everybody was doing well, society could indulge the excess. That is no longer true.

The concern about the proportionality of reward at the top in relation to effort is mirrored by concern about what is happening at the bottom – another driver of the concern about fairness. The huge inflow of immigrants from EU accession states who have found work in Britain is compared unfavourably to the millions in their forties and fifties who are living on benefits. The question asked in many working class communities around the

country is whether immigration levels would have been lower if British born benefit claimants had filled the jobs instead. Is the welfare bargain fair? Is enough being done to encourage benefit claimants to take work – or are they living unfairly on the largesse of others? The hard pressed middle in British society is looking both above and below and asking tougher questions about fairness. If the recovery from recession is slow and unemployment protracted, the questioning will grow ever more intense.

Fairness and high performance workplaces

In this context, the route to the high performance workplace in this post-recession economy must have two defining characteristics: reviving business purpose and committing to 'fair' companies which engage employees.

Clarity of business purpose will create clear values in turn. This is the route to trust in relationships between directors and staff, the company and its customers and supply chain. If companies have a clear idea of who and what they are everything becomes easier; who to recruit, investment priorities and which markets to target. It allows companies to align their brand, business model and purpose. It is the basis for any credible narrative for the investment and banking communities.

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Declared business purpose	Ambitions
To help our customers connect to the people and things that matter to them (Telecommunications)	To provide world-class telecommunications and information products and services and develop and exploit our network at home and overseas
To build strong communities by creating opportunities for people – including customers, shareholders and associates – to fulfil their dreams. (Bank)	To become one of a handful of universal banks leading the global financial services industry
Caring for the world, one person at a time (Pharma)	To become a diversified global healthcare leader

The table above takes the declared business purpose from a telecom, a bank and a pharmaceutical company. The statements of 'business purpose' translate into a 'strategy' from which the company aims to be a profit-maximiser. This chain of causation is important. It declares what the business is about and thus what its capabilities need to be. It creates an animating framework and focus for the pursuit of profit, rather than making profit the sole purpose of the company. Subtle – but important.

The second condition for success is a commitment to fairness. Employees in particular firms and hard pressed sectors may have to accept wage freezes, reductions in benefits, changes in role and pay holidays over the difficult years ahead. They will be

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survivors as others lose their jobs. Yet it is only through workforce engagement and commitment that successful innovation can be achieved and hyper-responsiveness to consumers successfully mastered. Managements and leaders have to earn trust – which can only be done by committing to fairness.

Fairness is about both outcomes and processes. Outcomes must be proportional to effort, especially discretionary effort that has plainly made a difference to the enterprise. Salaries, wages and bonuses must reflect due desert. Pay and promotion must be transparent, earned through effort or result should be directly linked to the business's purpose. Equally those who forego wages and benefits must be able fairly to benefit in future through issues of shares or long term bonuses. Care must be taken to ensure that procedures and processes embody fairness – in performance management, in promotion, in setting bonus targets, and in resolving disputes. In this respect trade unions can be important custodians of good fair processes, and as communication routes that uphold the authenticity and integrity of management actions. Employees value fair process as much as fair outcomes – back to the idea of procedural and distributive 'justice'. Yet 'fairness' can be subjective and susceptible to other forces such as envy or negative attributions. Consider this example:

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Peter has decided to quit his job after eight years. He has always got good annual appraisal scores, excellent feedback from his managers and has twice been chosen to represent his department on cross-functional project teams reporting to the MD. He's been promoted twice and has had regular pay rises. But last month the job which Peter really wanted – a real step up into a serious management role – was given to a younger colleague with, in Peter's view, less experience and less technical know-how. Kate had been to Cambridge and got the job – he reasoned – because the company wanted to have more women in senior roles. Peter found all of this too much to take and resigned to join a competitor organisation on about the same salary.

In this kind of example, perceived fairness is a powerful driver not just of psychological states such as engagement, morale and commitment, but also of behaviours such as performance and quitting. Organisations which get their internal processes wrong or, as in Peter's case, fail to explain them clearly, can create big problems for themselves. Clear values, a sense of organisational vocation or purpose, and a clear and demonstrable commitment to fairness are hard to attain, but precious if they can be harnessed. Companies like Rolls Royce, Standard Chartered and Sainsbury have fared better than expected over the recession in part because of this approach.

So these two preconditions – business purpose and fairness – are intertwined and interdependent. As *Engaging for Success*¹,

¹ Engaging for Success, the report to the government on employee engagement published in July 2009: <http://www.berr.gov.uk/whatwedo/employment/employee-engagement/index.html>

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the report to the British government on employee engagement published in July 2009 says 'Engaged organisations have strong and authentic values, with clear evidence of trust and fairness based on mutual respect, where two way promises and commitments – between employers and staff – are understood, and fulfilled.'

Any company concerned to integrate a range of functions as co-equally important has to demonstrate that by how they are held organisationally; for example marketing, HR and research/innovation should be reinvented as functions equal to the financial function. In particular, human resource management needs to be more than the function that organises the transactional part of the employee/employer relationship from payroll to dispute resolution, important as both are. The ambition to be a strategic adviser to the CEO is in most organisations an ambition too far – and presumes unity of purpose rather than trying to build it. Rather HRM must aim to be the custodian of the 'deal' – the moral bargain between an employer anxious to enlist employee engagement around the business purpose and an employee who will be readier to engage more. The bargain is explicit and honoured – especially in terms of fair outcomes and process. Every communication vehicle should be exploited to impart the business purpose to staff – and encourage feedback. There needs to be regular interactive 'town hall meetings', video conferencing, and of course walking the floor.

All internal procedures need to be 'fair-proofed' to make sure they meet fairness standards – one of the dimensions of the 'deal'.

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Management need to engage in an urgent debate with employees to ensure that they all have a common understanding of what fairness means and how it governs pay relativities – I suggest ‘*Due desert for discretionary effort*’ – and that they are all on the same moral page in being committed both to fairness and to a shared understanding of what it means in terms of pay, process, respect and voice.

When it comes to stringency on wage freezes or even pay holidays, management must insist on equality of sacrifice with no exemptions. There is a strong case for deepening and extending employee stock ownership schemes which can offer shares as deferred payment in exchange for sacrifices in pay or for exceptional discretionary effort as part of the ‘fair-proofing’ exercise. Employee share ownership schemes work. For example, the Treasury in the largest study of share ownership ever to have been undertaken in Britain,² found that ‘on average, across the whole sample, the effect of tax-advantaged share schemes is significant and increases productivity by 2.5 per cent in the long run.’ Different schemes reinforced the effect and it found that schemes chosen by firms without tax advantages tended to pay out more than those with tax breaks. This suggests that if cash is just the motivation, it works less well than a determined effort to signal that what matters to management are inclusion, engagement and fairness. When workers are given their due desert within a system of due process, leading them to believe that they are being treated fairly, they work harder.

² Oxera (2007) [*Tax Advantaged Employee share Schemes: analysis of productivity effects Report 2: Productivity Measured Using Gross Value Added*](#), HM Revenue and Customs Research Report 33

The Work Foundation is exploring the nature of the emerging employer/employee 'deal' to open up the implication of this approach.³ What is already clear is that a precondition for the high innovation workplace is a capacity to hard-wire market feedback into internal processes to ensure responsiveness and improvement. But any such hard-wiring is predicated on employees wanting to operationalise the system. Equally while all innovation depends on self-consciously creating the space to experiment and to fail – 'organisational slack' – again innovation springs from engaged, concerned and involved workers who are prepared to exploit this slack. Engaging employees is becoming a crucial strategy for commercial success.

Time for fairness?

Trade unionism is in transition. Declines in membership in the private sector continue, particularly in the fast growing knowledge based economy. Representation in knowledge based services in Britain and the West generally tends to be tiny. Knowledge workers – indeed many contemporary workers – are reluctant to associate themselves with the values and approach of traditional trade unionism; adversarial, and putting egalitarian values before those of fairness and equity. Yet at the same time the case for employee voice and the need to develop a dialogue over the issues in this paper – business purpose, 'fair-proofing', employee engagement, job design, the structure of pay and the commitment to innovate and be consumer responsive – is ever more pressing.

³ The Work Foundation's Future of HR programme is investigating the nature of the employer/employee 'deal': <http://www.theworkfoundation.com/thefutureofhr>

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Trade unions are confronted with a choice. They can stick to their knitting – pay, conditions and job security. Or they can embrace this new agenda as opening up possibilities for achieving respect, autonomy, fair process, tempered security, the opportunity for self-expression and of course due pay for due effort at work. If Nobel Prize winning economist Edmund Phelps⁴ is right that every worker seeks to do something entrepreneurial and self-actualising with their working lives, the opportunity now presents itself to turn this into reality. Unions who have wanted to go in this direction have too frequently encountered suspicious, cautious managements unwilling to open up – unions' reputation goes before them. Now is the moment for both sides to venture change.

Post-recession organisations face many tough challenges. Survival, consolidation and stability may be the most basic, but these are accompanied by the challenges of re-building trust, re-engaging with their employees and other stakeholders, and articulating anew what they stand for as corporate entities – both in commercial terms and in a wider societal sense. Fairness lies at the core of what comes next for these organisations. It cannot be ignored because its abuse in recent years has triggered an enormous erosion of trust and has set back our capacity to motivate the discretionary effort from our employees which, in its turn, drives the innovation, creativity and productivity the UK economy will need if it is to grow and regain its competitiveness. We should not hold back in our efforts to embed fairness into the

⁴ Phelps E., Nobel prize speech (2006)

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mainstream of organisational thinking and practice. Our recovery will be altogether more sluggish if we fail.

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